Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
September 30, 2014

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

90 Years in MENA

Report on review of Interim Condensed Financial Statements to the Board of Directors of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as of September 30, 2014, and the related interim condensed income statement, comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young – Middle East

Ernst + Young

November 2, 2014

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
September 30, 2014

	Notes	September 30, 2014 Unaudited U.S. $	December 31, 2013 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		39,615,908	44,819,600
Projects in progress	3	34,732,526	24,735,263
Advances to contractors		11,071,656	4,274,340
Intangible assets	4	140,921,975	148,450,379
		226,342,065	222,279,582
Current assets			
Prepayments and other current assets		1,881,303	1,485,443
Inventory		1,297,946	787,351
Accounts receivable		9,364,217	12,436,854
Cash on hand and at banks	5	35,853,233	42,772,802
		48,396,699	57,482,450
Total Assets		274,738,764	279,762,032
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(188,913,335)	(178,244,001)
Net equity		80,696,665	91,365,999
Non-current liabilities			
Provision for employees' indemnity		6,937,551	6,005,810
Interest-bearing loans and borrowings	6	63,168,384	69,472,097
Other non-current liability		54,346,654	54,346,654
		124,452,589	129,824,561
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	20,437,500	15,750,000
Accounts payable		6,116,314	7,738,771
Due to related parties		209,859	266,768
Deferred revenues		5,892,791	5,970,146
Other current liabilities		19,876,955	18,988,215
Accrued project cost		17,056,091	9,857,572
		69,589,510	58,571,472
Total liabilities		194,042,099	188,396,033
Total Equity and Liabilities		274,738,764	279,762,032

The attached notes 1 to 11 form part of these interim condensed financial statements

INTERIM STATEMENT OF INCOME
For the three-month and nine-month periods ended September 30, 2014

		Three Months Ended September 30		Nine Months Ended September 30	
		2014	2013	2014	2013
		Unaudited		Unaudited	
	Notes	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		22,136,663	22,078,156	64,937,983	66,357,510
Cost of service		(12,267,955)	(11,958,365)	(36,058,425)	(36,729,676)
		9,868,708	10,119,791	28,879,558	29,627,834
Finance revenue		152,303	159,914	472,669	468,470
Currency exchange gain(loss)		565,190	(557,466)	359,253	(614,144)
General and administrative expenses		(4,582,692)	(6,010,687)	(14,830,385)	(18,371,912)
Marketing expenses		(1,470,822)	(1,495,866)	(3,654,626)	(4,173,518)
Depreciation and amortization		(5,746,688)	(6,560,465)	(17,750,223)	(19,242,384)
Finance costs	7	(1,305,949)	(1,310,768)	(3,883,040)	(3,916,006)
Provision for doubtful accounts		-	(250,630)	(262,540)	(1,258,560)
Loss for the period		(2,519,950)	(5,906,177)	(10,669,334)	(17,480,220)
Basic and diluted earnings per share	8	(0.010)	(0.023)	(0.041)	(0.068)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended September 30, 2014

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Loss for the period	(2,519,950)	(5,906,177)	(10,669,334)	(17,480,220)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	(2,519,950)	(5,906,177)	(10,669,334)	(17,480,220)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the nine-month period ended September 30, 2014

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. $	U.S. $	U.S. $	U.S. $
Balance at January 1, 2014	258,000,000	11,610,000	(178,244,001)	91,365,999
Total comprehensive income for the period	-	-	(10,669,334)	(10,669,334)
Balance at September 30, 2014	258,000,000	11,610,000	(188,913,335)	80,696,665
Balance at January 1, 2013	258,000,000	11,610,000	(156,919,119)	112,690,881
Total comprehensive income for the period	-	-	(17,480,220)	(17,480,220)
Balance at September 30, 2013	258,000,000	11,610,000	(174,399,339)	95,210,661

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS
For the nine-month period ended September 30, 2014

	September 30, 2014	September 30, 2013
	Unaudited	Unaudited
Operating activities	U.S. $	U.S. $
Loss for the period	(10,669,334)	(17,480,220)
Adjustments for:		
Depreciation	9,427,532	10,698,671
Provision for employees' indemnity	1,157,448	2,118,579
Provision for doubtful account	262,540	1,258,560
(Gain) loss on disposal of property and equipment	(115,595)	17,167
Finance revenue	(472,669)	(468,470)
Finance costs	3,883,040	3,916,006
Amortization	8,322,691	8,543,713
	11,795,653	8,604,006
Working capital changes:		
Prepayments and other current assets	(395,860)	3,596,667
Inventory	(510,595)	357,888
Accounts receivable	2,810,097	(1,767,325)
Accounts payable	(1,444,037)	181,695
Deferred revenues	(77,355)	1,014,592
Other current liabilities	887,652	(354,547)
Provision for employees' indemnity paid	(404,127)	(708,174)
Net cash flows from operating activities	12,661,428	10,924,802
Investing activities		
Purchase of property and equipment and intangibles	(733,754)	(1,102,942)
Proceed from disposal of property and equipment	166,307	28,988
Increase in projects in progress	(7,133,829)	(7,499,609)
Advances to contractors	(6,797,316)	(450,389)
Interest received	472,669	468,470
Restricted cash	278,457	-
Net cash flows used in investing activities	(13,747,466)	(8,555,482)
Financing activities		
Syndicated loan transaction cost paid	(650,907)	(1,041,583)
Interest paid	(2,972,258)	(3,021,232)
Repayment of syndicated loan	(1,875,000)	-
Due to related parties	(56,909)	171,931
Net cash flows used in financing activities	(5,555,074)	(3,890,884)
Decrease in cash and cash equivalents	(6,641,112)	(1,521,564)
Cash and cash equivalents, beginning of the period	42,323,464	44,599,394
Cash and cash equivalents, end of the period	35,682,352	43,077,830

1. Activities

Wataniya Palestine Mobile Telecommunication Company (the Company), located in Ramallah, was registered and incorporated in Palestine on January 27, 2007 as a Private Limited Shareholding Company under registration No. 562499541. On October 25, 2010, the legal form of the Company was changed to a Public Shareholding Company under registration No. 562601328.

The Company was formed with an authorized share capital of 5,000,000 shares with U.S. $ one par value each. During 2008, the Company's authorized and paid-in share capital was increased to 170,000,000 shares with U.S. $ one par value each. The Company's General Assembly in its extraordinary meeting held on October 25, 2010 resolved to increase the Company's authorized share capital to 258,000,000 shares with U.S. $ one par value each. The existing shareholders (WIL and PIF) subscribed for 49,300,000 shares through capitalizing portion of the shareholders' loans and the related accrued interest. The remaining 38,700,000 shares were offered to the public at an offer price of U.S. $ 1.3 per share, resulting in a share premium of U.S. $ 11,610,000. The public offering took place during the period from November 7, 2010 to December 2, 2010.

On March 14, 2007, the Company entered into a license agreement (the License) with the Ministry of Telecommunications and Information Technology (the MTIT) to provide 2G and 3G mobile services in the West Bank and Gaza. The term of the License shall be fifteen years from the effective date being the date on which the MTIT makes the frequencies available to the Company. The effective date was originally set on August 6, 2008. On December 16, 2009, the MTIT approved the Company's request to determine September 10, 2009 as the effective date, instead of August 6, 2008, since it represents the date on which only 2G frequencies were allocated.

The Company started its operations on November 1, 2009.

The Company's main activities are offering, managing, and selling wireless telecommunication services, as well as constructing and operating wireless telecommunication stations and telephone networks.

The interim condensed financial statements of the Company as at September 30, 2014 were authorized for issuance by the Board of Directors on November 2, 2014.

2. Summary of significant accounting policies

Basis of preparation

The interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2013. The results for the period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2014.

The interim condensed financial statements have been presented in United States Dollar, which is the functional currency of the Company.

Changes in accounting policies

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements in the previous year, except that the Company has adopted the new standards and interpretations effective as of January 1, 2014, adoption of these standards did not have any effect on the results of operations or financial position of the Company.

<u>IAS 32 – Amendments: Offsetting Financial Assets and Financial Liabilities.</u>
These amendments clarify the meaning of currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Company.

<u>IFRIC Interpretation 21 Levies (IFRIC 21)</u>
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The following IFRS have been issued but are not yet effective, and have not been adopted by the Company:

IFRS 9 Financial Instruments: Classification and Measurement.

3. Projects in progress

The movement on projects in progress is as follows:

	September 30, 2014	December 31, 2013
	U.S. $	U.S. $
Beginning balance	24,735,263	19,576,928
Additions	14,332,348	11,404,966
Transfers to property and equipment and intangible assets	(4,335,085)	(6,246,631)
	34,732,526	24,735,263

The estimated cost to complete the projects in progress as of September 30, 2014 is U.S. $ 16,349,035.

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	U.S. $	U.S. $	U.S. $
Cost			
At January 1, 2014	184,871,337	11,944,412	196,815,749
Additions	-	207,798	207,798
Transferred from projects in progress	-	586,489	586,489
At September 30, 2014	184,871,337	12,738,699	197,610,036
Accumulated Amortization			
At January 1, 2014	42,013,264	6,352,106	48,365,370
Amortization for the period	6,850,288	1,472,403	8,322,691
At September 30, 2014	48,863,552	7,824,509	56,688,061
Net carrying amount			
At September 30, 2014	136,007,785	4,914,190	140,921,975
At December 31, 2013	142,858,073	5,592,306	148,450,379

* The Company started amortizing the License on November 1, 2009 being the date on which it commenced its operations.

5. Cash on hand and at banks

	September 30, 2014	December 31, 2013
	U.S. $	U.S. $
Cash on hand	121,269	59,128
Cash at banks and short term deposits	35,731,964	42,713,674
	35,853,233	42,772,802

As at September 30, 2014, the Company maintains eleven short term deposits amounting to U.S. $ 32,092,989 (2013: U.S. $ 33,712,806) at local banks with an annual interest rate of 1.75% (2013: 1.82%).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	September 30, 2014	September 30, 2013
	U.S. $	U.S. $
Cash on hand	121,269	114,965
Cash at banks and short term deposits	35,731,964	42,962,865
	35,853,233	43,077,830
Restricted cash	(170,881)	-
	35,682,352	43,077,830

6. Interest-bearing loans and borrowings

	September 30, 2014	December 31, 2013
	U.S. $	U.S. $
Shareholders' loans		
Wataniya International FZ – LLC (WIL)	2,850,000	2,850,000
Palestine Investment Fund, PLC (PIF)	2,150,000	2,150,000
Accrued interest (WIL)	743,037	613,874
Accrued interest (PIF)	560,092	462,653
	6,303,129	6,076,527
Third parties' loans		
Local banks' loans	50,025,000	51,000,000
IFC loan	35,100,000	36,000,000
	85,125,000	87,000,000
Less: transaction costs directly attributable to third parties' loans	(7,822,245)	(7,854,430)
	83,605,884	85,222,097
Non-current portion	63,168,384	69,472,097
Current portion	20,437,500	15,750,000
	83,605,884	85,222,097

7. Finance costs

	September 30, 2014	September 30, 2013
	U.S. $	U.S. $
Interest on loans and borrowings	3,199,948	3,265,067
Amortization of transaction costs	683,092	650,939
	3,883,040	3,916,006

8. Basic and diluted earnings per share

	September 30, 2014	September 30, 2013
Loss for the period (U.S. $)	(10,669,334)	(17,480,220)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. $)	(0.041)	(0.068)

9. Commitments and contingencies

As at the interim condensed financial statements date, the Company has outstanding contractual commitments resulting from purchases, services and construction contracts, as well as its license.

Following is a summary of the outstanding commitments:

	September 30, 2014	December 31, 2013
	U.S. $	U.S. $
Contracts and purchase orders	23,335,773	12,938,076
License *	159,653,346	159,653,346

* The Company entered into a license agreement with MTIT for a total price of U.S. $ 354,000,000. The unpaid portion of the license cost, net of the related non-current liability, of U.S. $159,653,346 represents the unrecognized liability in the financial statements resulting from MTIT not fulfilling its obligations in relation with granting the Company access to Gaza, 3G frequencies and International Gateways.

The Company entered into an agreement to lease the office building on January 27, 2007. During 2012, the Company renewed the contract for additional 5 years with an option to renew the contract.

Following is the future minimum rentals payable under non-cancellable operating lease:

	September 30, 2014	December31, 2013
	U.S. $	U.S. $
Within one year	438,315	419,274
After one year but not more than five years	766,794	876,661
	1,205,109	1,295,935

10. Related party transactions

Related parties represent associated companies, shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Balances with related parties included in the interim condensed statement of financial position are as follows:

	Nature of Relationship	September 30, 2014	December 31, 2013
		U.S. $	U.S. $
Accounts receivable	Shareholders	2,745	6,273
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Due to related parties	Shareholders	209,859	266,768
Accrued interest	Shareholders	1,303,129	1,076,527

Transactions with related parties included in the interim condensed income statement were as follows:

	September 30, 2014	September 30, 2013
	U.S. $	U.S. $
Interest expense on shareholders' loans	226,602	227,098
Key management personnel compensation	657,646	756,391
Revenue from shareholders	10,653	37,081

11. Fair value of financial instruments

Set out below the details of the financial instruments, other than cash on hand and at banks, held by the Company:

	September 30, 2014
	U.S. $
Financial assets	
Accounts receivable	9,364,217
Other current assets	82,002
	9,446,219
Financial liabilities	
Interest-bearing loans and borrowings	83,605,884
Other non-current liability	54,346,654
Accounts payable	6,116,314
Due to related parties	209,859
Other current liabilities	19,876,955
Accrued project cost	17,056,091
	181,211,757

- The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- The fair values of accounts receivable, other current assets, accounts payable, due to related parties, other liabilities and accrued project cost approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of interest-bearing loans and borrowings and non-current liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.